CITY OF BIRMINGHAM
RETIREMENT AND RELIEF PENSION SYSTEM
(RESTATED MAY 8, 2013)

PENSION LOAN GUIDELINES

IMPORTANT FACTS ABOUT PENSION LOANS

(Specific, detailed information about Pension Loans follows this section)

- **Maximum Loan Amount - $12,000**
- **Minimum Loan Amount - $500**
- **Minimum Payment Amount - $25**
- **Maximum Number of Loans per year – two (2)**
- **Interest Rate – 6%-7% of the unpaid principal balance**
- **Loans must be repaid, in full, upon termination of active employment**
- **Promissory Note, Pension Loan Certification Form, and Statement of Acknowledgement and Agreement are required for approval of a loan**
- **Repayment of loan is by payroll deduction every fourteen (14) days**
- **Special conditions apply when employees retire or qualify for deferred (vested) pension benefits**
- **Loan default may result in adverse tax consequences and may affect your future pension benefits**
- **Bankruptcy filing can adversely affect/restrict your ability to obtain a pension loan**
- **Any service or disability benefit to which you are eligible under the pension system is subject to a monthly reduction in order to collect an outstanding, unpaid pension loan balance**

THINGS YOU MUST CONSIDER WHEN APPLYING FOR A PENSION LOAN

In the best interest of the pension system, the Board of Managers of the City of Birmingham Retirement and Relief Pension System ("The Fund") shall have the authority to approve or disapprove any pension loan based upon the then current circumstances of the fund. Additionally, a portion of your pension loan may be subject to income tax and early distribution penalties based upon Federal tax law. **The Board of Managers is not liable for any costs or penalties incurred by any employee-participant who makes a loan from the Retirement and Relief Pension System.** Each participant making a loan is solely and individually responsible for consulting an accountant, tax attorney or other financial advisor to answer any questions about making a pension loan.

ELIGIBILITY / MINIMUM AND MAXIMUM LOAN AMOUNTS

Active employees who are participants in the City of Birmingham Retirement and Relief Pension System, may borrow up to 50% of his/her contributions into the fund, excluding contributions made to the Firemen's and Policemen's Supplemental Pension Fund, up to a maximum of $12,000. The annual limit on the amount loaned will include the refinanced balance of any prior year loan and interest. The minimum loan amount is $500, and the minimum payment amount is $25.

NUMBER OF LOANS

Only two (2) loans per calendar year are allowed. If the maximum loan is obtained on the first loan of a calendar year, only one loan is allowed to be issued regardless of the amount repaid on that loan during the calendar year. For each calendar year, the annual limit on the amount loaned will include the refinanced balance of any prior year loan. If the maximum is not obtained on the first loan of the calendar year, eligibility for a second plan loan within a calendar year is determined based on the original amount borrowed on the first loan, plus any refinanced balance, not on the unpaid balance at the date of the second loan application. Only one loan within a thirty (30)-day period is allowed.

PENSION LOAN CERTIFICATION FORM

The approval of a pension loan application is conditioned upon, among other things, the proper execution of a "Pension Loan Certification" form. A properly executed "Pension Loan Certification" form must be submitted with each pension loan application.

INTEREST RATE

By law, the interest rate on pension loans is determined by the Board of Managers, and can range from six percent (6%) to seven percent (7%), calculated on the unpaid principal balance. The interest rate is currently six percent (6%). Interest will continue to accrue on the unpaid balance of the loan until the loan is paid in full. If an existing loan is refinanced, the proceeds from the new loan will be adjusted for any accrued, unpaid interest on the old loan balance.

REPAYMENT OF LOAN

Repayment of the loan is by payroll deduction every fourteen (14) days for a maximum of fifty-two (52) installments, provided that the terms may be modified to accommodate voluntary bi-weekly loan payment deductions. There is no penalty for early repayment of a pension loan. Loans must be repaid within two (2) years from the date of the loan regardless of circumstances, including, but not limited to, military service, Ordinary Disability, Extraordinary Disability, and authorized leave without pay. Loans shall be repaid upon termination of employment for any reason.

REPAYMENT EXCEPTIONS:

A. A participant who retires and draws a pension upon retirement may be allowed to continue to make payments on his/her pension loan through payroll deduction, but only if: (i) he/she shall post additional collateral approved by the Director of Finance; and (ii) the amount of his/her pension benefit, after any mandatory deductions required under state and federal law are deducted, is sufficient to permit the total pension loan installment to be deducted each month. Pension loan payments shall be deducted before any healthcare premiums are deducted. If the pension benefit amount is not sufficient to cover both pension loan payments and healthcare premiums, then arrangements must be made with the City of Birmingham's Office of Personnel to pay healthcare premiums directly, or health insurance will lapse.

B. Vested participants under the definition of the Pension Plan who terminate employment with the City, having a pension loan balance and who are not due to draw a pension immediately must pay the balance of the pension loan in full upon termination of active employment. If the City determines that the vested participant is otherwise unable to pay the full amount of the balance and the participant desires to continue to make payments thereon, the said participant shall: (i) post additional collateral acceptable to the City; and (ii) execute an agreement providing for continued monthly payments by authorizing and executing automatic withdrawals from a checking or savings account or by debit card, and electing to take the option of a lump sum refund of contributions effective upon 90 day default in monthly payments on the loan and authorizing the City, after deducting the unpaid balance of the pension loan, to distribute the balance of the refund of contributions to the address of the employee/participant on file in the Office of Personnel at the time of termination. The employee/participant has the responsibility of providing change of address information. The agreement shall further provide that the unpaid balance of the loan shall be offset from the amount of any supplemental wage payment (i.e., longevity, or some other lump-sum payment) or return of contributions.

RIGHT OF OFFSET

Pursuant to pension law, any debt or liability of a participant to the fund resulting from failure to repay a pension loan, for whatever reason, may be offset against, recouped from, and deducted from, any amount due from the fund to the employee member or others claiming under him/her either as return of contributions or as disability or retirement payments or death benefits. Each participant who wishes to obtain a pension loan shall ***acknowledge and agree in writing*** that, under the Pension Law, any participant who retires or terminates employment with a vested pension benefit shall be due to pay off his/her pension loan in full according to the terms of the pension loan agreement. Should there be a default, the Pension Law allows the Pension System to deduct the pension loan payments in full from the pension check or survivor's payments until the loan is fully satisfied. If the participant does not have a vested benefit, then the total amount of the pension loan shall be subtracted from the return of contributions due each participant.

LOAN DEFAULT

A pension loan default occurs at any time a pension loan is unpaid for 90 days from the due date on the pension loan repayment schedule. Defaults in repayment may result in adverse tax consequences. In addition, the Board of Managers may avail itself of any legal, court and/or other remedies available to it in order to cure any default. If the default continues for more than 90 days, a 1099-R will be filed with the Internal Revenue Service (IRS), as required by law. The outstanding amount of the loan, including outstanding principal and interest, may be deemed an early distribution, and under certain circumstances, potential tax liabilities and penalties may apply.

EFFECT OF BANKRUPTCY FILING ON OUTSTANDING PENSION LOAN BALANCE

Should a participant, after executing a Pension Loan Certification, file and list his/her pension loan in Bankruptcy under Chapter 13, the Board may direct that no future pension loan applications will be approved for a period of three (3) years from the date of the bankruptcy filing date. Should said participant repay the pension loan in full, including all interest thereon, the Board may reconsider permitting a future pension loan thereafter. Should a participant with a current pension loan file in Bankruptcy under Chapter 7, and attempt to discharge the pension loan as a debt, the Board shall direct that any future pension loan applications be denied. Should the participant execute a re-affirmation of the responsibility to repay the pension loan within thirty (30) days of the filing of the Chapter 7, file the re-affirmation with the Bankruptcy Court, and thereafter fully pay the pension loan, the Board may consider allowing a pension loan in the future after such repayment.